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Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

The Dollar Plunges to Record Lows

Although investors traditionally flock to buy dollars during times of war, the U.S. currency seems to have lost its "safe-haven" allure this time around. After spiking higher when U.S.-led forces initially attacked Iraq on January 16, the dollar then quickly moved in the opposite direction, falling to record lows against the German mark and Swiss franc, and to its weakest level in a decade against the British pound, French franc and Spanish peseta.

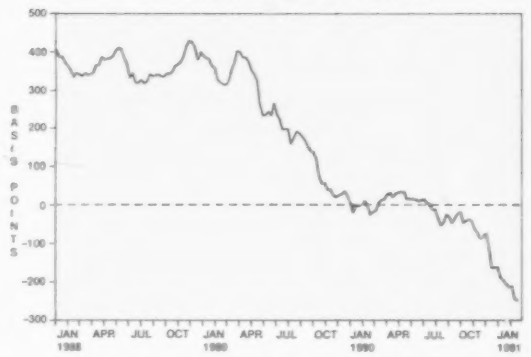
The dollar's general weakness reflects the fact that economic and interest rate considerations are strongly outweighing political factors in today's foreign exchange markets. In fact, worries about worsening economic performance and falling interest rates in the United States, contrasting with robust economic growth and rising rates in Germany, have been undermining the dollar's value against the mark for over a year.

Just how far apart these two economies are in the business cycle was made clear earlier this month when the German Bundesbank and U.S. Federal Reserve chose to pull in diametrically opposite directions with their respective changes in official interest rates. On January 31, the Bundesbank lifted its two key interest rates by a half percentage point, bringing the discount rate to 6½ percent and the Lombard rate to nine percent. The following day, the Federal Reserve lowered the U.S. discount rate by a half percentage point to six percent and signaled a 50 basis point reduction in the Federal funds rate. As a result, the differential between German and U.S. interest rates widened to around 250 basis points in Germany's favor. Two years ago, the differential was 400 basis points in favor of the United States (see chart).

Bundesbank and Fed Go Their Separate Ways

Despite pressures from the Bonn government at home and Finance Ministers abroad to avoid monetary tightening at the present time because of such international considerations as the slowing of global economic growth and uncertainties surrounding the Gulf war, the Bundesbank felt that its first duty was to maintain price stability in Germany. Monetary officials have repeatedly voiced their concerns about possible inflation dangers from rapid money supply growth, excessive wage demands and

SPREAD BETWEEN 3-MONTH EURODOLLAR AND EUROMARK RATES (WEEKLY AVERAGES)



Source: MH

Bonn's ballooning budget deficit. Indeed, only hours before the Bundesbank lifted its rates, metalworkers in southwest Germany put in their claims for a ten percent wage hike.

After several years of buoyant growth in corporate profits and with industry in the west coming up against capacity constraints, the Bundesbank is apparently concerned that, rather than face a prolonged period of labor unrest, employers will be more prone to give in to union demands for large wage increases. At the same time, signs that the deteriorating economy in the region that was once East Germany is far worse than expected means that government outlays will be much higher than planned this year, causing the 1991 budget deficit to exceed $100 billion, equivalent to almost five percent of Germany's economy.

While the Bundesbank is worrying about inflation pressures in Germany, the Federal Reserve, on the other hand, has become increasingly concerned about the length and depth of the recession here in the United States. As a result, the release of January's extremely bleak employment data, followed by news that the purchasing managers' index sank to a nine-year low, prompted the usually cautious Fed Chairman, Alan Greenspan, to implement a swift half percentage point cut in both

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the discount and Fed funds rates.

While these abrupt changes in monetary policy in both countries triggered the dollar's fall against the mark, its descent was hastened by the market's perception that neither government is too concerned about the dollar's decline. This is because a strong mark bears down on German inflation and helps to attract much needed investment to the east, while a weak dollar can provide a stimulus to the U.S. economy by boosting exports.

Cross Rates Remain Stable

Although the combination of widening interest rate differentials and poor U.S. economic growth prospects triggered a collapse of the dollar against the Deutschemark, the hike in German interest rates provoked only a modest appreciation of the mark against the Japanese yen, Swiss franc and the currencies belonging to the European Monetary System (EMS). As a result, most other central banks did not feel obliged to lift their interest rates in order to preserve the value of their currencies against the Deutschemark. In fact, the stability of the peseta, which has been the EMS's strongest currency for over a year, enabled the Bank of Spain to cut its key money market rate by 20 basis points to 14½ percent. This, in turn, gave

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/6/91)	211,813	+ 2,625	- 5,427
New York City (2/13/91)	33,948	- 240	- 7,475
Commercial Paper (2/13/91)	567,586	- 3,686	+ 32,906

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/6/91)	318,972	+ 2,042	- 610
New York City (2/13/91)	57,310	+ 465	- 956

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/6/91)	1,061,212	+ 8,396	+ 60,711
New York City (2/13/91)	176,924	- 511	- 8,095

Financial Markets

	Friday 2/22/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.11%	+ .05	- 1.81
180-Day Bills†	6.21	+ .06	- 1.86
Longest Bills†	6.30	+ .07	- 1.79
Recent Issues:			
7s 1/31/93	6.97	+ .17	
7⅛s 1/31/96	7.58	+ .18	
7¾s 2/15/01	7.91	+ .15	
7⅞s 2/15/21	8.08	+ .11	
Municipals:			
Bond Buyer—20 Bond Index* (2/21/91)	6.97%	+ .16	- .30
Blue List Total ($ Million)	$1,445	+ $ 289	+$ 65
30-Day Visible Supply ($ Million)	$2,655	- $1,413	+$ 867
Total	$4,100	- $1,124	+$ 932
Corporates:			
Moody's Aa Composite (2/21/91)	9.15%	+ .02	- .33
30-Day Visible Supply ($ Million)	$ 165	+ $ 87	- $1,185
Stocks:			
Dow-Jones Averages:			
Industrials	2,889.37	- 45.28	+325.18
Transportation	1,125.35	+ 6.17	+ 44.09
Utilities	215.36	- .12	- 1.50
65 Stocks	1,033.24	- 7.11	+ 74.89
N.Y.S.E. Composite Index	199.64	- 1.65	+ 20.29
N.Y.S.E. Avg. Daily Vol. for Week (000's)	193,739	- 43,179	+33,361

*34% Taxable equivalent 10.56%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/22/91	Week Ago
Overnight	6.50%	6.56%
1 month	6.44	6.38
3 month	6.63	6.50
6 month	6.63	6.50
1 year	6.88	6.69

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/22/91)	Currency Per U.S. $	Week Ago
Belgium	30.73	30.37
Canada	1.1500	1.1529
France	5.0830	5.0285
Germany	1.4933	1.4760
Italy	1118.00	1109.70
Japan	131.40	130.30
Mexico	2971.80	2969.00
Netherlands	1.6830	1.6630
South Korea	708.41	707.92
Switzerland	1.2830	1.2690
Taiwan	26.63	26.64
U.K.*	1.9570	1.9710

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (2/22/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.8%	-5.0%

the Bank of England room to signal a half point cut in British base rates to 13½ percent. Despite the United Kingdom's deepening recession, the government has been extremely cautious about easing monetary policy because of the pound's weak position near the bottom of the EMS.

One reason why the Bundesbank's interest rate hikes did not destabilize the EMS is that a tightening of German monetary policy at some point had been expected by the market since last autumn. Another reason is that the Deutschemark's strength continues to be offset by market nervousness about the rising cost of German unity and political unrest in the Soviet Union.

Market nervousness about the rising cost of German unification and political unrest in the Soviet Union also suggests that the dollar's weakness against the Deutschemark and other European currencies will not last forever. Indeed, the overwhelming market bearishness that drove the dollar to record lows has eased in recent days on hopes that an early peace in the Gulf will boost the ailing U.S. economy, thus decreasing the chances of lower U.S. interest rates. If, on the other hand, the war drags on, the dollar could test new lows within the next several weeks. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/20/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	246.560	+ 3.004	+23.895
Loans to Depository Inst.	.282	+ .206	- 1.606
Float	.960	- .237	- .661
Total Reserve Bank Credit	287.013	+ 1.280	+22.832
Treasury Deposits with Federal Reserve Banks	9.728	- 1.460	+ 4.946
Currency in Circulation	284.780	+ .814	+29.550
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	254.164	- 1.770	+29.124
Member Bank Reserves:	2/20/91		
Total Reserves Held	60.034	- .448	+ .888
Excess (Deficiency)	1.929	- .822	+ .938
Net Free Reserves	1.776	- .814	+ 2.132

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	% Change Since Year Ago
M1 (2/11/91)	835.9	+ 5.0	+ 4.4
M2 (2/11/91)	3,352.5	+ 2.7	+ 3.2
M3 (2/11/91)	4,164.6	+ 4.4	+ 2.4
Domestic Nonfinancial Debt (3rd Q'90)	10,309.3	+ 7.0	+ 7.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 2/22/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.96%	5.97%	5.96%
* Federal Agencies	6.15	6.25	6.30
* Municipal Notes–High Grade (34% Taxable Equivalent)	5.68	6.06	6.44
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.60	6.55	6.87

‡ Finance Company Paper–Prime

5- 14 days	6.00%
15- 29 days	6.40
30- 59 days	6.37
60- 89 days	6.50
90-179 days	6.44
180-239 days	6.30
240-270 days	6.30

‡* Bankers' Acceptances

Mar.	6.45%
Apr.	6.55
May	6.45
Jun.	6.42
Jul.	6.40
Aug.	6.35

‡ Industrial Paper–Prime

30- 89 days	6.43%
90-120 days	6.35

†Federal Funds Effective Rate 5.75%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'90	$ 5,519	$ 5,515	$ 5,289
Gross National Product (1982 Dollars)*	4th Q'90	$ 4,148	$ 4,170	$ 4,133
Percent Change, Annual Rate	4th Q'90	- 2.1	1.4	0.3
Change in Consumer Prices*	Jan '91 n	4.8%	3.6%	10.8%
Change in MH Cost of Living Index*	Jan '91 n	9.6%	4.8%	10.8%
Change in Producer Prices*	Jan '91 n	- 1.2%	- 7.2%	20.4%
Civilian Employment (Thousands of Persons) †	Jan '91	116,922	117,574	117,945
Unemployment as % of Civilian Labor Force †	Jan '91	6.2%	6.1%	5.3%
Personal Income*	Dec '90	$ 4,747	$ 4,714	$ 4,497
Leading Indicators Composite Index (1967=100) †	Dec '90	140.1	140.0	145.3
Industrial Production Index (1977=100) †	Jan '91 n	106.5	107.0r	107.5
Net Change in Consumer Installment Credit †	Dec '90	- $ 1.45	$ 2.76	$ 2.72
U.S. Merchandise Trade Balance †	Dec '90 n	- $ 6.25	- $ 8.91r	- $ 6.80
Plant and Equipment Expenditures*	1st Q'91	$ 557.9 (a)	$ 532.8 (a)	$ 532.4
Private Housing Starts (Thousands of Units)*	Jan '91 n	850	975r	1,543
New Construction Expenditures*	Dec '90	$ 415.1	$ 417.1	$ 432.0
Total Business Inventories †	Dec '90 n	$ 810.7	$ 816.1r	$ 795.1
Total Business Sales †	Dec '90 n	$ 530.9	$ 543.2r	$ 527.4

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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